

Barbeque Nation Hospitality Limited

January 21, 2019

Summary of rated instruments

Instrument*	Previously Rated Amount(Rs. crore) ¹	Current Rated Amount(Rs. crore)	Rating Action
Term loans	94.92	105.88	[ICRA]A+ (Stable); reaffirmed
Short-term fund-based limits	-	30.00	[ICRA]A1+; assigned
Total	94.92	135.88	

*Instrument details in Annexure - I

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]A+ (pronounced ICRA A plus) assigned to the Rs.105.88 crore (revised from Rs.94.92 crore) term loans of Barbeque Nation Hospitality Limited (BNHL / the company). Outlook on the long-term rating is Stable. ICRA has also assigned a rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs.30.00 crore short-term fund-based limits of the company.

Rationale

The assigned ratings continue to consider BNHL's strong brand image in the restaurant segment facilitating penetration into newer markets, healthy revenue growth of 18.7% during FY2018 and healthy capitalization and coverage metrics with gearing of 0.7x, TD/OPBDITA of 1.8x as on March 31, 2018 and its comfortable working capital position backed by strong bargaining power with suppliers. While the company's consolidated operating margins contracted to 12.0% in FY2018 from 13.1% in FY2017 largely on account of ~Rs.7.0 crore loss each from Prime Gourmet Private Limited (PGPL) and the company's entry into the UAE market, the standalone operating margins of the company (pertaining to India operations) improved to 15.0% during FY2018 from 14.2% in FY2017 despite addition of 23 new stores across the country during FY2018. While ICRA had expected equity infusion to the tune of Rs.200 crore into the company through an IPO during FY2018 resulting in a debt-free status, the company had raised only Rs.80 crore in the pre-IPO round during March and April 2018. Proceeds from the same have been used towards term loan repayments and capex in India. Going forward, while ICRA expects the company to raise more equity, timing of the same currently remains uncertain.

The rating strengths are however partially offset by the company's presence in a highly competitive market with large number of players both in the organized and unorganized segment restricting pricing flexibility, presence in a business that remains vulnerable to reduction in discretionary consumer spending and inflationary pressures. While the company has posted strong growth in revenues during FY2018, the revenue growth momentum has declined over the last few years. However, BNHL's revenue growth is expected to be healthy in FY2019. That said, BNHL's scale of operations continues to remain a concern. The ratings also continue to factor in the negative free cash flow position of the company on account of ongoing and planned expansion to set up new stores across India and the UAE over the next two-three years.

¹ 100 lakh = 1 crore = 10 million

To counter competition and expand its operations through the 'Johnny Rockets' brand in India, the company had acquired PGPL during FY2017. However, BNHL had wound up operations under the same during H1 FY2019 on account of lack of support from the brand owner for customization of the menu to fit the Indian palette, and relatively higher fixed costs than BNHL's India operations which resulted in continued losses.

ICRA also notes that the company is currently in the process of expanding its store count to 10 in the UAE by end of FY2019 as against two stores as at end of FY2018. While the UAE operations had incurred a loss of ~Rs.7 crore in FY2018, losses are expected to increase during FY2019 given that the company will commence operations at eight new stores by end of FY2019 as against two stores during FY2018. However, over the longer term, the international operations expected to support revenue growth of the company given relatively higher realization in the UAE market.

Outlook: Stable

ICRA believes BNHL will continue to benefit from its strong brand name in the Indian market. The outlook may be revised to 'Positive' if substantial growth in revenue and profitability strengthens the financial risk profile. The outlook may be revised to 'Negative' if cash accrual is lower than expected, or if higher than expected debt-funded capital expenditure weakens debt indicators beyond ICRA's expectations of gearing of 0.9x and TD/OPBDITA of 2.0x.

Key rating drivers

Credit Strengths

- **Strong brand image in the restaurant segment** facilitates entry into new markets at competitive rentals, in turn supporting the company's revenues and operating margins. BNHL has witnessed healthy revenue growth during over the last two-three years aided by addition of new stores and consequent increase in number of covers sold in the same.
- **Healthy revenue growth and operating margins under its India operations** – The company had posted a healthy revenue growth of 16.7% during FY2018 under its standalone (India) operations. However, while majority of the company's revenue growth is driven by increasing footfalls on the back of new stores, the same store sales continues to remain low. In terms of margins, despite addition of 23 stores during FY2018, the company's standalone operating margins expanded to 15.0% in FY2018 from 14.2% in FY2017 indicating relatively faster turnaround of the newly set up stores.
- **Healthy debt protection metrics** – Even while the total debt of the company increased to Rs.127.7 crore as on March 31, 2018 from Rs.87.1 crore as on March 31, 2019, BNHL's capitalization and coverage metrics continue to remain comfortable with gearing of 0.7x and TD/OPBDITA of 1.8x as on March 31, 2018 supported by healthy operating margins and accruals.

Credit Weaknesses

- **Aggressive expansion to continue to impact margins** – The company's consolidated operating margins contracted to 12.0% in FY2018 from 13.1% in FY2017 largely on account of ~Rs.7.0 crore loss each from Prime Gourmet Private Limited (PGPL) and the company's expansion in the UAE market. Further, write-off of the company's investment in PGPL during H1 FY2019 is expected to result in weak net margins during FY2019. Going forward, ongoing expansion in the UAE and India is expected to continue to impact margins of the company.

- While ICRA had expected equity infusion to the tune of Rs.200 crore into the company through an IPO during FY2018 resulting in a debt-free status, the company had raised only Rs.80 crore in the pre-IPO round during March and April 2018. Proceeds from the same have been used towards term loan repayments and capex in India. Going forward, while ICRA expects the company to raise more equity, timing of the same currently remains uncertain.
- **Stretched free cash flow position** – The company's free cash flow position continues to remain negative on account of the previous and ongoing capacity expansion to set up new stores across India and the UAE.
- **High competitive intensity** – Presence in a highly competitive market which restricts pricing flexibility of the company to a certain extent; the company's Average Price per Customer (APC) growth across regions continues to remain subdued in turn impacting the company's revenues to a certain extent.

Liquidity Position:

In terms of liquidity the company's working capital utilization levels remained low during the period April to August 2018 on the back of Rs.79.9 crore equity infusion received by the company during March and April 2018. However, with pick-up in addition of new stores across the country and abroad, the utilization levels have increased from September 2018 onwards. On an average, the company utilized 52.3% of its sanctioned working capital limits of Rs.25 crore during the 7-month period ending October 31, 2018. Currently, BNHL has undrawn term loans of Rs.40 crore as on date which would be utilized for ongoing capex in India.

The company had debt outstanding of Rs.89.7 crore as on April 30, 2018. While part of this loan was repaid during the YTD FY2019 through proceeds from the equity infusion, the company is also expected to avail additional loans for the ongoing capex in both India and the UAE. In comparison to the company's accruals, the repayments of Rs.8.5 crore during FY2019 and Rs.16.5 crore during FY2020 are comfortable.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	NA
Consolidation / Standalone	The rating is based on consolidated financial statements of the company

About the company:

Currently, BNHL operates about 119 restaurants across India and eight restaurants in the UAE. The company was incorporated in October 2006 as a wholly-owned subsidiary of Sayaji Hotels Limited (SHL, rated [ICRA]BBB- &). However, SHL currently 45.1% shares in BNHL through its wholly-owned subsidiary Sayaji Housekeeping Services Limited. The balance shareholding is held by CX Partners (through Tamara Private Limited), Alchemy India Long Term Fund Ltd and other individual promoters.

Key financial indicators (audited)

Consolidated	FY2017	FY2018
Operating Income (Rs. crore)	503.5	597.5
PAT (Rs. crore)	11.6	3.5
OPBDIT/ OI (%)	13.1%	12.0%
RoCE (%)	19.4%	14.8%
Total Debt/ TNW (times)	0.6	0.7
Total Debt/ OPBDIT (times)	1.3	1.8
Interest coverage (times)	4.5	3.8

Source: the company, ICRA research; OPBDITA: Operating Profit before Depreciation, Interest and Taxes; PAT: Profit After Tax; RoCE: Return on Capital Employed; TNW: Tangible Net Worth

Status of non-cooperation with previous CRA: NA

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years						
	Type	Amount Rated (Rs.crore)	Amount Outstanding as on March 31, 2018 (Rs Crore)	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018				Date & Rating in FY2017	Date & Rating in FY2016
				January, 2019	January, 2019	January 2018	December 2017	November 2017	July 2017	Nov 2016	Nov 2015
Term Loans	Long Term	105.88	109.1	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)
Fund-based limits	Short Term	30.00	-	[ICRA]A1+	-	-	-	-	-	-	-
Unallocated Limits	Long Term	-	-	-	-	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A + (Stable)	[ICRA]A + (Stable)	[ICRA]A (Stable)
Commercial Paper Programme	Short Term	-	15.00	-	[ICRA]A1+ withdrawn	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Term Loans	FY2018	NA	FY2023	105.88	[ICRA]A+ (Stable)
Short-term fund based limits	FY2018	NA	NA	30.00	[ICRA]A1+

Source: the company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Prime Gourmet Private Limited	100%	Full consolidation
Barbeque Nation Holdings Limited	100%	Full consolidation
Barbeque-Nation Restaurant LLC	49%	Equity method
Barbeque Nation (Malaysia) SDN BHD	100%	Full consolidation

Source: the company

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